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RB ROUNDTABLE

The Changing Economics of Franchising



The economic environment which fueled the rapid growth of restaurant franchising in the '50s and '60s appears to have been replaced by a much harsher climate in the '70s. To discuss the key issues facing the industry in the '80s, *Restaurant Business* sponsored a special Roundtable encompassing a wide variety of perspectives—from franchisors, franchisees, and industry experts. Their insights appear on page 81.



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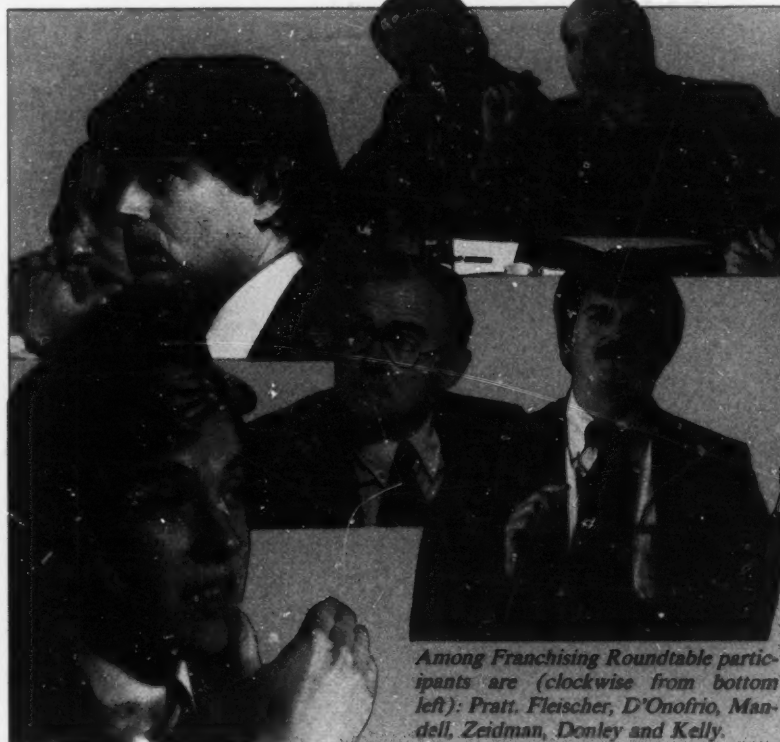


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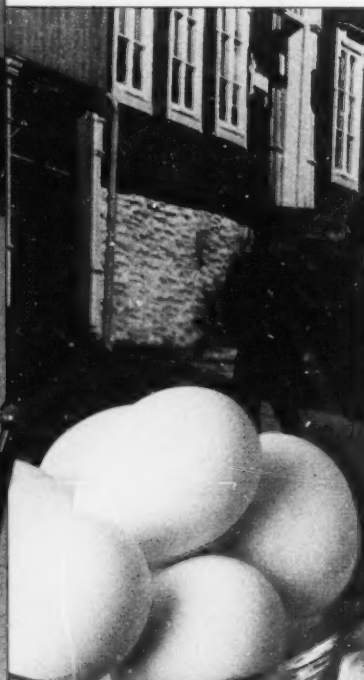
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Among Franchising Roundtable participants are (clockwise from bottom left): Pratt, Fleischer, D'Onofrio, Mandell, Zeidman, Donley and Kelly.

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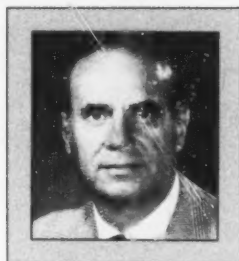
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COVER AND STORY PHOTOGRAPHY BY CHARLES WIESEHAHN



"Franchising in the Economy, 1980-81," is an updated study about franchising in the U.S. It is issued annually by the Department of Commerce and prepared by Andrew Kostecka of the Service Industries Div., Bureau of Industrial Economics. Each March, we publish excerpts from the survey on franchised restaurants.

Restaurant franchising in the economy

Franchising, as a method of distribution, has become a significant part of the U.S. economy, comprising numerous categories of commercial enterprise and including all of the ingredients of the marketing system—planning, production, packaging, pricing, promotion, advertising, selling, buying and competing. It is perhaps the only form of business organization that, by its very nature, tends to create new business units. When the franchisee joins the franchise system, the new tradename, the acquisition of a distinctive business appearance, and the standardization of products, services, and operations procedures lead to the birth of a new enterprise for the express purpose of marketing the franchisor's products or services.

To follow this rapidly growing industry, the Bureau of Industrial Economics of the U.S. Department of Commerce has conducted its eleventh annual survey of franchisors, the only one of its kind in the country. Questionnaires were mailed to all known business for-

mat franchisors. Individual returns were received from 1,584 franchisors representing an estimated 99 percent of business format franchising sales and establishments in the United States. A complete list of such franchisors is continually being maintained and updated by the Bureau of Industrial Economics through the use of trade journals, company news releases, trade association data, and registration lists of those states that require mandatory registration of all franchisors.

The franchise system of distribution continues to prove its validity as a marketing method adaptable to an ever-widening array of industries and professions, while providing immediate identity and recognition for entrepreneurs joining the system. Established companies are also turning to franchising as a means of expanding their distribution systems, by either converting their wholly owned outlets or by launching new programs.

Franchising has been called the last and best hope for independent

business in an era of growing vertical integration. It helps small businesses compete with the giants, since franchisees have a good chance to survive and prosper using the franchisor's know-how and trademark or servicemark. It also offers a unique opportunity to people with limited capital and experience.

Despite problems that have plagued other sectors of the economy during 1980 and 1981, franchisors remain optimistic about their expansion goals in 1982. Franchise sales of goods and services by all franchising companies are expected to reach \$437 billion in 1982, an increase of 15 percent over the estimated sales reported for 1981, while the number of establishments will reach almost 466,000 in 1982, up from 447,000 in 1981. Employment in franchising, including part-time workers and working proprietors, was 4.7 million in 1980, and is estimated to reach 5.0 million by the end of 1982.

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Product and tradename

Traditional types of franchising, otherwise known as product and tradename franchising, consist, primarily, of product distribution arrangements in which the franchisee is to some degree identified with a manufacturer's supplies. Typical of this segment are automobile and truck dealers, gasoline service stations, and soft drink bottlers. Together they account for 76 percent of all franchise sales for 1982.

Total sales by product and tradename franchisors are expected to reach an estimated \$332 billion in 1982, compared with \$287 billion in 1981 and \$253 billion in 1980. The number of establishments, however, is expected to decline in 1982 to 177,000 from 182,000 in 1981 and 190,000 in 1980, due to closing of gas stations and auto/truck dealers.

Business format

This form of business activity is typical of the newer types of franchising, ranging from restaurants and non-food retailing to lodging, personal and business services, rental services, and real estate services. In business format franchising, a franchisor establishes a fully integrated relationship that includes not only product, service, and trademark but also a marketing strategy and plan, operating manuals and standards, quality control,

RESTAURANT FRANCHISING: 1980-1982*				
Major Activity	Firms	1980		
		Total	Company-Owned	Franchisee-Owned
Total	425	27,867,046	9,129,708	18,737,338
Chicken	35	2,734,006	821,926	1,912,080
Hamburgers, Franks, Roast Beef	110	14,027,398	3,412,293	10,615,105
Pizza	83	2,455,542	916,118	1,539,424
Mexican	32	878,523	394,900	483,623
Seafood	12	785,806	378,339	407,467
Pancakes, Waffles	17	784,546	245,385	539,161
Steak, Full Menu	102	5,935,804	2,917,911	3,017,893
Sandwich and Other	34	265,421	42,836	222,585

* Estimated by respondents for 1981 and 1982.

RESTAURANT FRANCHISING: 1980-1982*				
Major Activity	Firms	1980		
		Total	Company-Owned	Franchisee-Owned
Total	425	59,959	17,826	42,133
Chicken	35	7,338	2,131	5,207
Hamburgers, Franks, Roast Beef	110	27,027	5,363	21,664
Pizza	83	8,914	3,389	5,525
Mexican	32	2,774	1,208	1,566
Seafood	12	2,290	1,088	1,202
Pancakes, Waffles	17	1,278	367	911
Steak, Full Menu	102	8,858	4,013	4,845
Sandwich and Other	34	1,480	267	1,213

* Estimated by respondents for 1981 and 1982.

U.S. FRANCHISED RESTAURANTS, 1980-1982 SUMMARY					
Item	1980	1981*	1982*	Percent Changes	
				1980-81	1981-82
Total number of establishments:	59,959	63,540	69,137	6	9
Company-owned	17,826	18,691	20,056	5	7
Franchisee-owned	42,133	44,849	49,081	6	9
Total sales of products and services: (\$000)	27,867,046	31,567,110	36,483,817	13	16
Company-owned	9,129,708	10,281,362	11,710,723	13	14
Franchisee-owned	18,737,338	21,285,748	24,773,094	14	16
Total sales of products and services by Franchisors to Franchisees: (\$000)	50,567	55,771	62,600	10	12
Merchandise (non-food) for resale	236,141	301,022	346,489	28	15
Supplies (such as paper goods, etc.)	477,162	625,520	691,956	31	11
Food ingredients	30,081	34,409	39,542	14	15
Other	793,951	1,016,722	1,140,587	28	12
Total					

* Data estimated by respondents.

SALES (\$000)

1981			1982		
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
31,567,110	10,281,362	21,285,748	36,483,817	11,710,723	24,773,894
3,110,592	951,971	2,158,621	3,638,673	1,129,065	2,509,608
16,007,923	3,825,938	12,181,985	18,499,599	4,306,843	14,192,756
2,779,939	1,014,200	1,765,739	3,323,588	1,151,364	2,172,224
1,024,548	471,205	553,343	1,268,793	583,382	685,411
927,271	468,285	458,986	1,069,353	566,342	503,011
879,154	280,099	599,055	1,011,703	312,666	699,037
6,521,277	3,217,521	3,303,756	7,270,273	3,593,806	3,676,467
316,406	52,143	264,263	401,835	67,255	334,580

NUMBER OF UNITS

1981			1982		
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
63,540	18,691	44,849	69,137	20,056	49,081
7,682	2,234	5,448	8,197	2,395	5,802
28,715	5,666	23,049	30,989	6,098	24,891
9,332	3,396	5,936	10,251	3,557	6,694
3,034	1,315	1,719	3,639	1,504	2,135
2,509	1,207	1,302	2,722	1,383	1,339
1,344	405	939	1,447	414	1,033
9,268	4,174	5,094	9,883	4,359	5,524
1,656	294	1,362	2,009	346	1,663

Trends

As more and more Americans eat meals away from home, the restaurant sector will go on being the most dynamic, popular, and among the most successful in the franchising system of distribution. Ethnic restaurants will move in increasing numbers into the marketplace.

A new frontier in franchising will be that of professional services such as dental centers, insurance agents, lawyers, and optical centers. In addition, franchising in real estate should expand rapidly, with large franchisors emerging as giants in the business. More and more independent real estate brokers will join real estate franchisors seeking the advantage of immediate national image and the benefits of a national chain.

In the years ahead franchising will widen its scope to include a variety of service industries such as barter brokers, hair-styling salons, health and fitness services, and franchises that concentrate on convenience and specialization. Small businesses in these industries have found it advantageous to enter franchising, mainly because of its emphasis on market research techniques that gauge consumer demand, thus helping assure a ready market for products and services.

More franchising is also expected in a broad range of computerized services, including all types of home computers, tax services, and related computerized services geared to the needs of small- and medium-sized businesses and professions.

Despite the slow pace of the overall economy, the unimpressive performance of the retailing sector, the sluggishness of industrial production, plunging housing starts and sales, and high interest rates in 1981, a record number of firms turned to franchising as a way to help them distribute their goods or services.

Although some 125 franchisors either failed or discontinued franchising as a method of doing business in 1981, a total of 250 companies entered the field of franchising

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and a communications system that provides for information feed-forward and feed-back.

Sales of business format franchisors are expected to be around \$105 billion in 1982, compared with \$93 billion in 1981 and \$84 billion in 1980. In contrast to product and tradename franchises, the number of establishments of business format franchises is expected to increase to almost 289,000 in 1982 from about 253,000 units in 1980.

Large franchisors continue to dominate business format franchising, with 55 companies accounting for 54 percent of all sales and for 54 percent of all establishments in 1980. These companies, of which 25

are engaged in automotive products and services, and restaurants, reported 136,757 outlets with sales of \$45 billion.

Sales of products and services by business format franchisors to their franchisees totaled \$5.4 billion in 1980 and might rise to about \$6.1 billion by 1982. Franchisor sales of merchandise for resale were largest in the non-food retailing category—\$1.9 billion in 1980—followed by automotive products and services—\$1.7 billion. Franchising sales of food ingredients amounted to \$1.2 billion in 1980, of which \$477 million went to restaurants and \$599 million to food retailers other than convenience stores.

TOP 25 FRANCHISE RESTAURANT SYSTEMS

1980-81 system wide sales by company and franchisee
(Sales in millions of dollars)

Franchise system	1980	1981	'80-'81 % Change
McDonald's	\$6,226. (1,698c/4,528f)	\$7,128.6 (1,915.9c/5,212f)	15
Kentucky Fried Chicken ***	2,194. (330c/1,864f)	2,490. (383c/2,107f)	14
Burger King ***	1,844. (341c/1,503f)	2,135. (351c/1,784f)	16
Wendy's	1,209. (310c/899f)	1,424.2 (440.2c/984f)*	18
Pizza Hut	1,031. (497c/534f)	1,247. (588c/659f)*	21
International Dairy Queen ***	1,020. (1.5c/1,018.5f)	1,125. (2c/1,123f)	10
Big Boy	800. (145c/655f)**	845. (155c/690f)*	6
Hardee's ***	751.6 (262.6c/489f)	843.6 (306.6c/536f)	12
Arby's	478. (62c/416f)	525.** (60.1c/453.9f)**	10
Church's ***	466.1 (391.7c/64.4f)	512. (408.6c/103.4f)	10
Ponderosa ***	481.5 (328.4c/153.1f)	487.1 (334c/153.1f)	1
Howard Johnson's ***	441.** (324c/117f)**	472.* (346.8c/125.2f)*	7*
Taco Bell ***	387.* (200.4c/186.6f)*	464.4* (240.5c/223.9f)*	20*
Long John Silver's ***	386.6 (218.6c/168f)	463.9 (275.9c/188f)	20
Dunkin Donuts ***	311.7 (26.3c/285.4f)	390. (24c/366f)	25
Bonanza ***	395. (0c/395f)	374.8 (0c/374.8f)	(5)
Burger Chef ***	337. (109c/228f)	340. (123c/217f)	1
Sizzler ***	259. (84c/175f)	295.7 (94.1c/201.6f)	14
Sonic Drive Ins ***	279. (28c/251f)	285. (25.5c/259.5f)	2
Perkin's 'Cake & Steak ***	243.6 (86.4c/157.2f)	266. (87.9c/178.1f)	9
Mr. Donut	218.6 (0c/218.6f)	243.5 (0c/243.5f)	11
International House of Pancakes	213.6 (32.7c/180.9f)	224.5* (56.9c/167.6f)*	5*
A & W ***	246. (1c/245f)	218. (0.6c/217.4f)	(11)
Pizza Inn	201.5 (97.5c/104f)	213.4** (106.8c/106.6f)**	6
Roy Rogers	167.9* (120.6c/47.3f)*	208.1* (154.7c/53.4f)*	24

1980-81 system wide units by company and franchisee

Franchise system	1980	1981	'80-'81 % Change
McDonald's	6,263 (1,608c/4,655f)	6,739 (1,746c/4,993f)	8
Kentucky Fried Chicken ***	6,242 (1,169c/5,073f)	6,357 (1,196c/5,161f)	2
Burger King ***	2,766 (444c/2,322f)	3,022 (451c/2,571f)	9
Wendy's	2,034 (506c/1,528f)	2,229 (748c/1,481f)	10
Pizza Hut	3,985 (1,990c/1,995f)	4,060 (2,005c/2,055f)	2
International Dairy Queen ***	4,833 (6c/4,827f)	4,805 (6c/4,799f)	(0.6)
Big Boy	1,150 (205c/945f)	1,180 (213c/967f)	3
Hardee's ***	1,320 (491c/829f)	1,379 (531c/848f)	4
Arby's	1,053 (120c/933f)	1,146 (122c/1,024f)	9
Church's	1,260 (1,001c/259f)	1,363 (1,052c/311f)	8
Ponderosa ***	681 (450c/231f)	698 (462c/236f)	2
Howard Johnson's ***	847 (622c/225f)	844 (627c/217f)	(0.4)
Taco Bell ***	1,270 (736c/534f)	1,396** (810c/586f)**	10
Long John Silver's ***	1,033 (578c/455f)	1,125 (651c/474f)	9
Dunkin Donuts ***	1,055 (73c/982f)	1,155 (68c/1,087f)	10
Bonanza ***	682 (0c/682f)	630 (0c/630f)	(8)
Burger Chef ***	751 (244c/507f)	725 (258c/467f)	(3)
Sizzler ***	452 (128c/324f)	478 (137c/341f)	6
Sonic Drive Ins ***	1,123 (126c/997f)	1,046 (112c/934f)	(7)
Perkin's 'Cake & Steak	373 (106c/267f)	341 (101c/240f)	(9)
Mr. Donut	835 (0c/835f)	891 (0c/891f)	7
International House of Pancakes	500 (112c/388f)	501 (141c/360f)	0.2
A & W	1,318 (3c/1,315f)	1,100 (1c/1,099f)	(17)
Pizza Inn	745 (366c/399f)	734 (317c/417f)	(1)
Roy Rogers	287 (201c/86f)	335 (238c/97f)	17

* Estimated by Restaurant Business

** Company estimate

*** Fiscal year-end results (remainder are calendar year-end results)

Source: Restaurant Business

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for the first time; this is a nine percent net gain over the number of franchisors that entered the system the previous year. This trend is expected to continue over the next few years.

The most significant developments in franchised regulation are expected to be at the state level. More attention will be given to state registration laws in an effort to reduce some of the compliance burdens of franchisors. With the growing number of state business opportunity laws, franchisors not having federally registered trade-

The most significant developments in franchised regulation are expected to be at the state level with more attention on registration laws.

marks will not only have to comply with these laws, but also with the usual franchise laws. There should also be a continuing movement in

state legislatures to propose regulations affecting franchising terminations, renewals and transfer policies.

International markets

Foreign markets are continuing to attract the attention of franchise company management. Despite rising costs and problems peculiar to individual nations, markets in many developed countries are increasingly exhibiting the same attributes that fostered the franchising surge in the United States. These attributes

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RESTAURANT FRANCHISING GROWTH IN SALES, 1976-1981 (SALES: \$000)									
Major Activity	Total Sales			Company-owned			Franchisee-owned		
	\$ 1976	\$ 1981*	% Change	\$ 1976	\$ 1981*	% Change	\$ 1976	\$ 1981*	% Change
Total	14,606,313	31,567,110	116	4,647,136	10,281,362	121	9,959,177	21,285,748	114
Chicken	1,609,270	3,110,592	93	423,142	951,971	97	1,126,127	2,158,621	92
Hamburgers, Franks, Roast Beef	8,030,623	16,007,923	99	1,999,638	3,825,938	91	6,030,985	12,181,985	102
Pizza	1,091,534	2,779,939	155	445,145	1,014,200	128	646,389	1,765,739	173
Mexican	309,113	1,024,548	232	140,985	471,205	234	168,128	553,343	229
Seafood	439,762	927,271	111	169,889	468,285	176	269,873	458,986	70
Pancakes, Waffles	464,462	879,154	89	89,975	280,099	211	374,487	599,055	60
Steak, Full Menu	2,585,786	6,521,277	152	1,310,103	3,217,521	146	1,275,683	3,303,756	159
Sandwich and Other	75,763	316,406	318	8,258	52,143	531	67,505	264,263	292

* Estimated by survey respondents for 1981

Source: U.S. Dept. of Commerce, Restaurant Business

RESTAURANT FRANCHISING GROWTH IN NUMBER OF UNITS, 1976-1981									
Major Activity	Total Units			Company-owned			Franchisee-owned		
	1976	1981*	% change	1976	1981*	% change	1976	1981*	% change
TOTAL	46,898	63,540	40	12,562	18,691	49	34,336	44,849	31
Chicken	6,171	7,682	25	1,705	2,234	31	4,466	5,448	22
Hamburgers, Franks, Roast Beef, etc.	24,064	28,715	19	3,997	5,666	42	20,067	23,049	15
Pizza	5,745	9,332	62	2,413	3,396	41	3,332	5,936	78
Mexican (Taco, etc.)	1,652	3,034	84	610	1,315	116	1,042	1,719	65
Seafood	1,831	2,509	37	680	1,207	76	1,151	1,302	13
Pancakes, Waffles	1,226	1,344	10	263	405	54	963	939	(3)
Steak, Full Menu	5,669	9,268	64	2,849	4,174	47	2,820	5,094	81
Sandwich and Other	540	1,656	207	45	294	553	495	1,362	175

* Estimated by survey respondents for 1981

Source: U.S. Dept. of Commerce, Restaurant Business

butes include: rising demand for consumer goods and services, expanding urbanization, increasing consumer mobility, and an economy shifting its emphasis from manufacturing to services.

Franchising is no longer an exclusively U.S. phenomenon. Franchisors in other countries are beginning to penetrate international markets, especially the attractive U.S. market, which has become a high-priority target for franchisors from Canada and Europe.

The U.S. Department of Commerce survey reveals that 279 franchising companies operated 20,428 outlets in foreign countries in 1980; this compares with 275 franchisors with 19,449 outlets in 1979, and, in 1971, 156 companies with 3,365 foreign outlets. Furthermore, 150 additional companies have indicated that they are considering extending their U.S. operations to foreign countries by the end of 1983. This interest has been expressed mostly by smaller and medium-sized franchisors, marketing a variety of services and products. Of the companies seeking foreign markets, 33 are franchisors of restaurants, 34 are involved in business aids and services, and 30 are engaged in a variety of non-food retailing activities.

The form of entry into foreign markets varies considerably, with many firms using more than one method in conducting foreign operations. Of the 279 franchisors doing business in foreign countries in 1980, 263 sold their outlets to franchisees either directly or through a master licensee who received the right to develop the franchisor's system in a specific country or region; 19 operated joint ventures; and 29 had some company-operated units. Twenty-three of these companies derived 10 percent or more of their income from foreign operations, 23 firms received between five and nine percent, 94 between one and four percent, and 139 received less than one percent.

Canada continues to be the dominant market for U.S. franchisors, despite its declining share of U.S. foreign outlets. In 1980, 36 percent

Franchisors in other countries are beginning to penetrate other international markets, especially the attractive U.S. market, which has become a high-priority target for franchisors from Canada and Europe.

of all U.S. foreign franchised outlets were located in Canada, down from a high of 46 percent in 1971. A total of 207 franchising firms with 7,191 units operated in Canada in 1980, predominantly in non-food retailing (1,497), restaurants of all types (1,227), and automotive products and services (1,024). Japan continues to be the second-largest market for U.S. franchisors, with a total of 3,448 units (of which 72 percent represent various food categories such as restaurants, donut shops, ice cream stores, and convenience food stores). The United Kingdom ranks third, with 2,031 outlets, while 2,801 outlets are located in all of Continental Europe. Other foreign markets include: the Caribbean, Asia (other than Japan and Middle East), Australia, the Middle East, South America, Mexico, Central America, Africa, and New Zealand.

Changes in ownership

Changes in ownership in 1980 involved 10,126 units belonging to 889 franchisors. These changes included conversions to franchisee-owned or to company-owned operations, and discontinuation of either company-owned or franchisee-owned outlets. Specifically, 808 outlets were purchased for company ownership, while 1,017 were converted to franchisee ownership; as in previous years the largest portion of these changes occurred in the restaurant sector of franchising.

The number of establishments discontinued in 1980 stood at 8,306, of which 1,208 were company-owned and 7,008 franchisee-owned.

Since 1975, the trend in franchising has reflected an increase in conversions of company-owned units to franchisee ownership, and, as in previous years, the survey shows that most units repurchased for company ownership were temporary buy-backs for a multitude of reasons, the least of which was the company's desire to withdraw from the franchise system or to operate these units permanently themselves.

Failures and departures

A total of 50 franchisors operating 1,866 outlets failed during 1981, according to the U.S. Department of Commerce survey. The volume of 1980 sales for the 50 firms that failed in 1981 amounted to \$206 million, of which the franchisee-owned portion was \$175 million. Compared to total business format franchising sales of \$85 billion, the \$206 million should be regarded as minimal. In addition, 75 companies decided in 1981 to discontinue franchising as a method of doing business; these companies operated 2,820 units in 1980 with \$519 million in sales, of which 1,908 outlets with \$353 million in sales were franchisee-owned.

The number of annual franchisor failures and departures has been slowing. In 1978, it stood at 74, jumping to 119 in 1979, six less than the figure for 1981.

Franchise arrangements

The survey revealed that in 1980, 71 percent of the currently operating business format franchising companies, covering 20 broad categories, issued franchise agreements of varying lengths, many of which, especially in the retail field, were associated with a lease. In all companies, these agreements provided an opportunity for the franchisee to enter into a new agreement at the end of the original term. Although the terms of the agreements vary all the way from one year to perpetual,

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more than 43 percent are of 20 years or more in duration. The most popular lease is that of 10 years in duration, used by 24.1 percent of the respondents. The least popular lease arrangement is that of three years in duration, agreed to by only 2.3 percent of the respondents.

Renewals, terminations, and transfers

In 1980, 11,411 franchise arrangements came up for renewal, of which 10,202, or 89 percent, were renewed and 1,209 franchises were not. Of the latter, 213 were not renewed because of objections by the franchisor, 536 because the franchisee did not wish to renew, and 460 because of mutual agreement.

There were 6,756 terminations of franchise agreements in 1980, of which 2,780 were terminated by franchisors—1,597 for non-payment of royalties or other financial obligations, 169 for the franchisee's failure to comply with quality control standards, and 1,014 for other reasons not identified. Franchisees were responsible for terminating 3,546 franchise agreements, while an additional 430 were terminated by mutual consent.

A total of 3,522 franchisees in

Since 1975,
the trend in franchising
has reflected an
increase in conversions
of company-owned
units to
franchisee ownership.

1980 asked permission from their franchisors to sell their franchises to other business persons; all but 96 transfers were approved.

Retail sales

Spending on retail goods, in general, was flat in 1981, as the growth in installment credit slowed and personal savings increased. Retail sales of all firms associated with the franchisee system, both franchisee-owned and company-owned, reached an estimated \$334 billion and accounted for 32 percent of all U.S. retail sales—estimated at \$1,045 billion in 1981. Retail franchising accounts for 88 percent of all franchising gross receipts.

Franchised retail sales should increase by 15 percent in 1982 and account for almost 34 percent of total retail sales. Much of the 1982

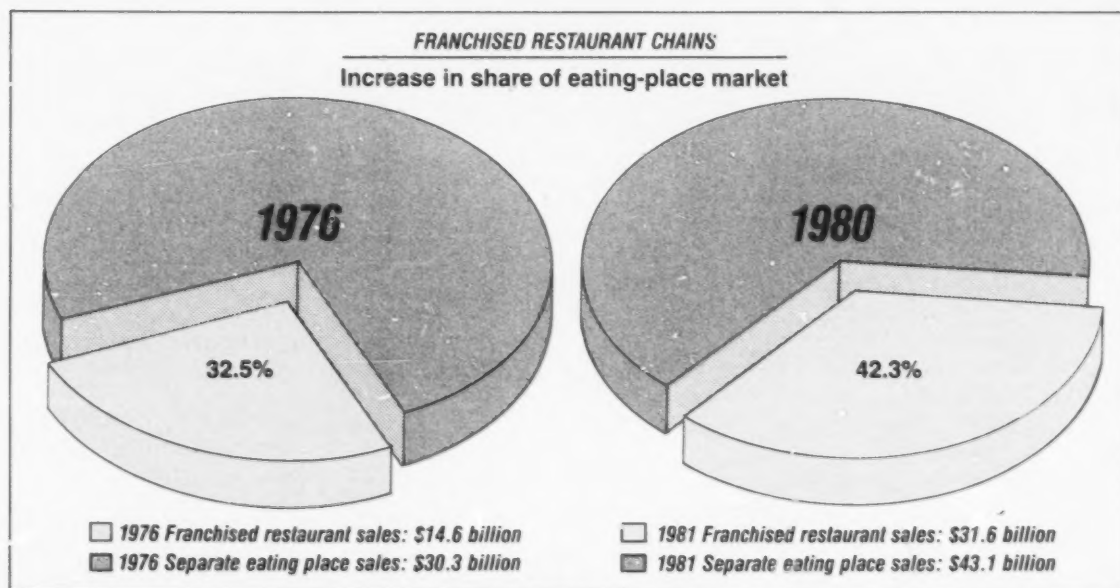
increase in retail sales will come from improved sales for consumer durable goods and discretionary spending. Sales of new automobiles, household appliances, furniture, and apparel should all increase; sales of other, non-durable goods will show smaller increases.

Restaurant franchising

Franchised restaurants of all types, with their distinctive and easily recognized operations, are continuing in success and popularity. Menu expansion and diversification is proliferating, breakfast sales as well as units serving breakfast are on the rise, promotions are being expanded, and franchise chains have increased advertising to meet competition, build traffic, boost sales, introduce new items, and enter new markets. Further expansion in foreign countries is the key goal of many chains. Conglomerate and corporate ownership of major franchise chains have risen and foreign ownership of franchisors has proliferated.

In their search for new franchisees, franchisors will be more competitive. They will also make service areas more resistant to economic downturns, franchise smaller

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(based on total sales of \$44.9 billion in '76, and \$74.7 billion in '81)

stores to reduce costs, seek broader audiences, add new products, and expand remodeling of existing units.

Sales of franchised restaurants of all types reached almost \$32 billion in 1981, up 13 percent over a year earlier; they are expected to jump about 16 percent, to \$36 billion in 1982. Franchised restaurants numbered 59,959 in 1980, increased to 63,540 in 1981, and are expected to rise to slightly more than 69,000 in 1982. The highest concentration of franchised restaurants continues to be in California, Texas and Ohio. Summaries of these findings are contained in the tables accompanying this report.

Employment in the franchised restaurant sector stood at 1,612,479 in 1980, up from the 1,497,283 of a year earlier in a rise of almost eight percent. Employment in the franchised restaurant industry accounts for almost 35 percent of employ-

Franchised restaurants numbered 63,540 in 1981 (sales reached \$32 billion) with the highest concentration of units in Texas, California and Ohio.

ment in the franchise system as a whole and should continue to rise in the next few years. Furthermore, franchised restaurant employees accounted for an estimated 40 percent of all persons employed in eating places in the U.S.

Entry into the restaurant franchising system, mostly by small companies, continued in 1980 with a net gain of 26 franchisors, bringing the total to 425. During 1981, 11 franchisors with a total of 136 restaurants, 110 franchisee-owned,

went out of business, while 21 franchisors with a total of 335 restaurants, 116 franchisee-owned, decided to abandon franchising as a method of marketing.

There were 14 big franchisors with more than 1,000 units each in 1980. These 14 franchisors had 32,871 restaurants, 55 percent of all franchised restaurants, and accounted for \$16.6 billion in sales, almost 60 percent of total franchised restaurant sales for the year.

Despite high real estate costs, indigenous eating habits, high labor costs in some countries, consumer resistance, and intense competition, American restaurant franchisors are moving into foreign markets at a rapid rate. In 1980, 57 restaurant franchisors operated 3,943 units throughout the world. Another 33 franchisors plan to extend their operations to foreign countries by the end of 1983. Canada is the largest

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U.S. FRANCHISED RESTAURANTS*
Number of Establishments by State: 1980

State	Total	Company-Owned	Franchisee-Owned	State	Total	Company-Owned	Franchisee-Owned
Alabama	1,096	267	829	Nebraska	499	143	356
Alaska	75	3	72	Nevada	244	86	158
Arizona	904	210	694	New Hampshire	129	25	104
Arkansas	615	128	487	New Jersey	963	165	798
California	5,395	1,461	3,934	New Mexico	381	62	319
Colorado	1,043	302	741	New York	2,096	545	1,551
Connecticut	438	142	296	North Carolina	1,354	332	1,022
Delaware	103	18	85	North Dakota	191	10	181
District of Columbia	102	49	53	Ohio	3,298	1,138	2,160
Florida	2,514	982	1,532	Oklahoma	1,201	463	738
Georgia	1,790	731	1,059	Oregon	709	173	536
Hawaii	171	60	111	Pennsylvania	1,884	546	1,338
Idaho	247	34	213	Rhode Island	105	37	68
Illinois	2,751	833	1,918	South Carolina	766	214	552
Indiana	1,798	504	1,284	South Dakota	198	23	175
Iowa	1,079	173	906	Tennessee	1,276	400	876
Kansas	862	212	650	Texas	5,152	1,755	3,397
Kentucky	1,189	306	883	Utah	324	84	240
Louisiana	899	278	621	Vermont	48	3	45
Maine	145	44	101	Virginia	1,282	385	897
Maryland	706	242	464	Washington	874	205	669
Massachusetts	682	229	453	West Virginia	431	156	275
Michigan	2,446	766	1,680	Wisconsin	1,162	255	907
Minnesota	1,170	313	857	Wyoming	153	13	140
Mississippi	806	87	519				
Missouri	1,352	482	870				
Montana	187	8	179	TOTAL	55,075	16,082	38,993

* Represents 92 percent of total establishments.

The remaining eight percent were unable to provide a geographic breakdown for this report.

market for franchisors of restaurants, followed by Japan, the United Kingdom and Continental Europe.

Prior to 1976, the repurchasing of franchisee-owned restaurant units surpassed that of company units converted to franchisee-owned units. This trend seems to have reversed itself in 1976, when the number of units repurchased for company ownership declined from 311 to 280, while the number of units converted to franchisee ownership jumped from 184 to 413. In 1980, 394 units were repurchased for company ownership, while 498 were converted to franchisee ownership.

To compete with other restaurant chains, many franchise operators have become more customer-oriented and are offering such amenities as tableservice and self service (including drive-ins and drive-thrus). Most restaurants offer one type or the other, but 20 franchisors offer both types of services, with one type clearly dominating. Only three chicken chains offer tableservice, as compared with 83 steak and full-menu restaurant companies with tableservice. One hundred and two hamburger companies feature self service; only seven have tableservice. With pizza

To increase sales volume and compete with fast food restaurants, convenience stores are offering a wide variety of take-out foods.

chains, the numbers are more evenly divided: 48 offer self-service and 35 provide tableservice.

Convenience stores

Strong growth is being experienced by convenience stores both in number of stores and dollar volume, as they provide many "fill-in" items that consumers need between regular excursions to the supermarket. Growing numbers of convenience stores are realizing extra sales by installing on their premises gasoline pumps, usually self-service. To increase sales volume and compete with fast food restaurants, convenience stores are offering a wide variety of takeout foods such as hot and cold sandwiches, coffee, chicken, hot dogs, and an assortment of other dishes, pre-cooked by the supplier requiring reheating or reconstituting in a microwave oven.

Despite intensified competition from supermarkets offering extended hours and Sunday shopping, franchised convenience stores are growing steadily in both sales and outlets. Sales moved up to \$8.7 billion in 1981, 11 percent above a year earlier while the number of franchised establishments were reported to be 16,255. Further gains are expected in 1982, five percent in sales and seven percent in number of establishments.

Food retailing

The retailing of food by specialty food shops, donut shops, ice cream stores, coffee services, and others amounted to \$8.3 billion in 1981, 11 percent above the previous year. Sales in 1982 for this sector are expected to reach \$9.2 billion. The number of food-retailing establishments in 1981 was 16,263, a figure predicted to rise to 17,362 in 1982.

Two of the better-known groups in the food-retailing category are donut shops and ice cream stores. In 1980, there were 21 franchisors of donut shops providing jobs for 34,870 workers. Twenty-eight franchisors of ice cream stores created employment for 37,557 persons, also in 1980. Sales and units for the year 1980-82 are listed for these

continued on page 124

INTERNATIONAL RESTAURANT FRANCHISING IN 1980											
Location and Number of Establishments*											
Major Activity	U.S. Firms	Total	Canada	Mexico	Caribbean	Europe		Asia		Australia	Other**
						United Kingdom	Other	Japan	Other		
Total	57	3,943	1,227	96	178	511	249	934	201	330	217
Chicken	6	1,298	88	63	77	304	45	319	60	198	144
Hamburgers, etc.	15	1,888	869	0	61	195	201	391	89	32	50
Pizza	8	263	18	14	12	7	1	48	47	94	22
Mexican	5	24	2	0	20	0	0	0	1	1	0
Seafood	4	57	53	0	0	0	0	4	0	0	0
Pancakes, etc.	3	16	7	0	0	0	0	8	1	0	0
Steak, full menu, etc.	14	395	189	19	8	5	2	164	3	4	1
Sandwich, others	2	2	1	0	0	0	0	0	0	1	0

* Includes company-owned, franchisee-owned and joint ventures

** Includes South America (15), Africa (95), New Zealand (53), Central American (54)

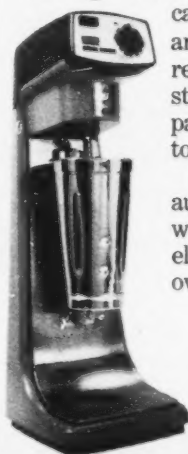
Source: U.S. Department of Commerce, Bureau of Industrial Economics



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Franchising Report *continued from page 122*

The hotel and motel industry should show continued strength during the next few years, reflecting a concerted effort to accommodate international travelers as well as travelers of specific age groups.

two types of food retailers in the accompanying tables.

Hotels and motels

Shorter work weeks, longer vacations, increased numbers of holidays and days off, and earlier retirement have all contributed to the success story of the sector that includes the hotel and motel industry, as well as a variety of entertainment, recreation, and travel business. With sales for the leisure and travel business sector of franchising estimated at \$11.4 billion in 1981, franchisors are expecting an 11 percent increase in 1982, to an estimated \$12.6 billion. The number of establishments is also expected to increase, from 11,554 in 1981 to 12,297 the following year.

The hotel and motel industry in particular should show continued strength during the next few years, reflecting a concerted effort to accommodate the international traveler as well as travelers of specific age groups. Hotel, motel and campground franchisors in 1981 represented 6,645 establishments, with receipts estimated at \$10.7 billion.

Survey respondents expect that receipts will rise 10 percent in 1982, to an estimated \$11.8 billion.

Occupancy rates at major domestic hotels stood just below 69 percent in 1981, off about two percentage points primarily because of increased air fares, cutbacks in business travel, resistance to increased room rates, and a decline in the number of foreign travelers. However, with the addition of new rooms to existing establishments and the edging-up of room prices, the industry is reporting consistently higher receipts. Room prices are expected to average more than \$45 per room in 1981, compared with \$42 per room in 1980 and \$39 in 1979.

Recreation, entertainment and travel

Franchising firms that are engaged in the recreation and entertainment and travel business report estimated sales of \$618.8 million in 1981; for 1982 they are expected to climb an additional \$211.1 million. This reflects an increased percentage (estimated) of almost 30%.

DONUT SHOPS (21 franchisors)

	Sales (\$000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1980	687,853	65,243	622,610	2,596	215	2,381
1981*	813,530	88,081	725,449	2,771	207	2,564
1982*	919,679	99,597	820,082	2,972	214	2,758

* Estimated by respondents.

ICE CREAM STORES (28 franchisors)

	Sales (\$000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1980	693,246	22,274	670,972	5,516	153	5,363
1981*	777,508	23,058	754,450	5,814	106	5,708
1982*	878,595	24,805	853,790	6,268	111	6,157

* Estimated by respondents.